

Economic Watch

U.S.

03 February 2012
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

Hakan Danış
hakan.danis@bbvacompass.com

Monthly US Outlook

No Clear Signs of a Significant Boost in 1Q12

- **Economic news has been mostly positive, although some recent indicators suggest slowing activity for 1Q12**
- **Growth in 2012 should exceed that of 2011, but risks remain tilted to the downside**

Economic activity has improved since the low point in mid-2011, yet recent indicators have been less-than-exciting. In fact, we expect that the pace of expansion is likely to slow for 1Q12. Growth in 4Q11 was the strongest of 2011, at 2.8% QoQ annualized, and this momentum should partially carry over into 2012. In particular, personal consumption expenditures should remain similar, with continued strength in durable goods. Although recent declines in consumer confidence levels suggest some hesitation moving forward, improvement in labor market conditions should balance concerns. While the crisis in Europe has not affected all aspects of domestic activity, we expect that the downward pressure on exports will persist.

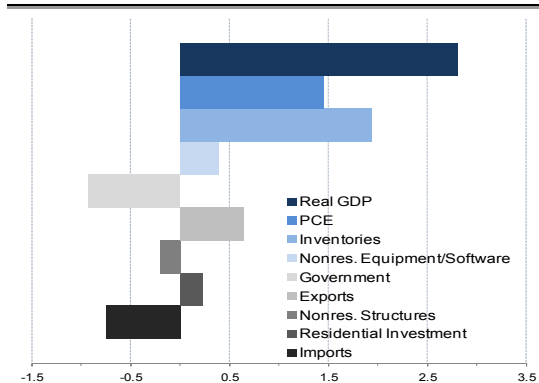
The lower-than-expected estimate for real GDP growth in 4Q11 is in line with Bernanke's view that the growth outlook is mixed and the recovery not "self-sustaining", prompting the Fed to revise down their growth projections for 2012 and 2013. We still regard the FOMC's projections of US GDP growth as too high, especially given the fiscal drag from expected future austerity measures in 2013. Bernanke regards the housing sector as partially responsible for the damaged link between monetary policy and economic activity. Therefore, any future scheme of large-scale asset purchases is likely to involve mortgage-backed securities. In its latest meeting, the Fed also released FOMC members' projections for the fed funds target rate for the first time, showing that the target fed funds rate will remain at or below 1% until the end of 2014. As implied by futures prices, the market had expected a first rate increase around 2014Q1 and the statement shifted expectations for interest rates considerably farther into the future. FOMC developments suggest that the probability of another round of large-scale asset purchases has increased but the Fed is not yet ready to embark on these purchases until either a tail risk event emerges or the data clearly suggests a significant slowdown in US growth. We expect that the Fed will be on hold until the beginning of 2014Q4. Moreover, Fed interventions and global uncertainties will keep long-term rates low, though we do expect a very moderate upward trend in yields.

The employment situation has been improving gradually but better than expected, with relatively stable growth in nonfarm payrolls and a decline in the unemployment rate to 8.3%. However, total nonfarm payroll levels have rebounded only 36% in the past two years compared to the pre-recession peak. Jobless claims data has been mostly positive, yet there has been no clear indication that business hiring plans will become less conservative in the near future. Even with January's boost in nonfarm payrolls, employment gains remain weaker than in 1Q11 but gives only some hope for the future of job growth.

Despite high rent costs and the recent bounce back in gas prices, we continue to expect that inflation will decelerate in the coming months, with core PCE inflation remaining within the Fed's comfort zone. Our growth outlook for 2012 is stronger compared to 2011, however, economic activity will be limited by downside risks, including slow job creation, housing stress, and continued global uncertainties. This economic environment and large economic slack should keep inflation under control. Furthermore, the rise in political uncertainty is likely to continue as the 2012 presidential campaign heats up. While risks remain tilted to the downside for 2012, another Lehman-type crisis is unlikely.

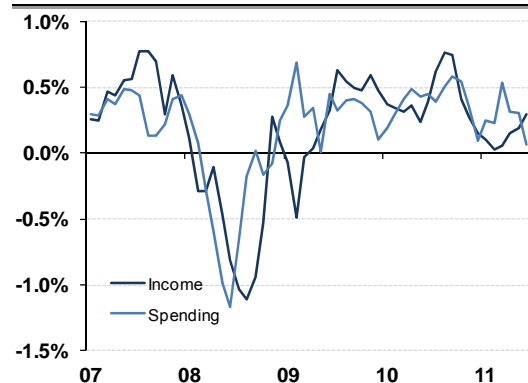
Economic Indicators

Graph 1
Contributions to Real GDP Growth
(4Q11 Advanced, SAAR % Points)



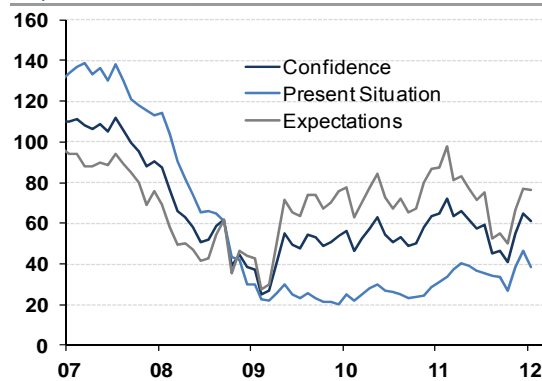
Source: Bureau of Economic Analysis

Graph 2
Personal Income and Expenditures
(3MMA, MoM%)



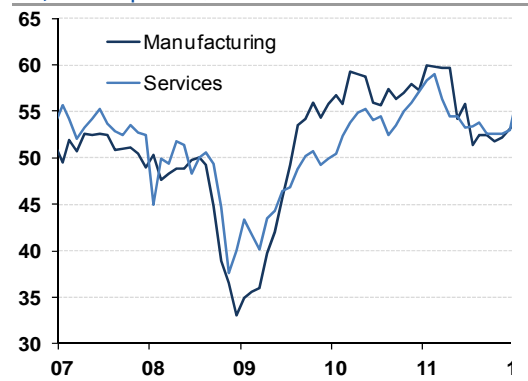
Source: Bureau of Economic Analysis

Graph 3
Consumer Confidence
(SA, Index 1985=100)



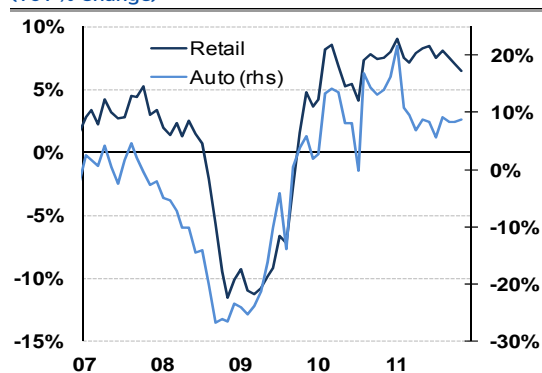
Source: Conference Board

Graph 4
ISM Indices
(SA, 50+ = Expansion)



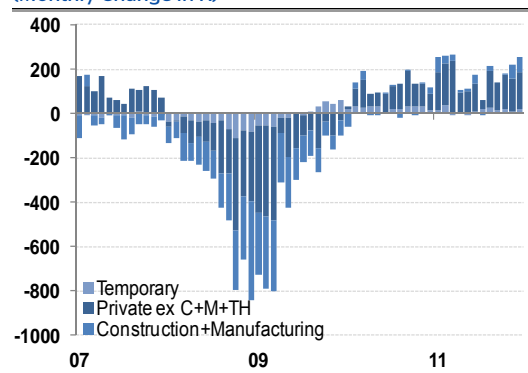
Source: ISM

Graph 5
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau

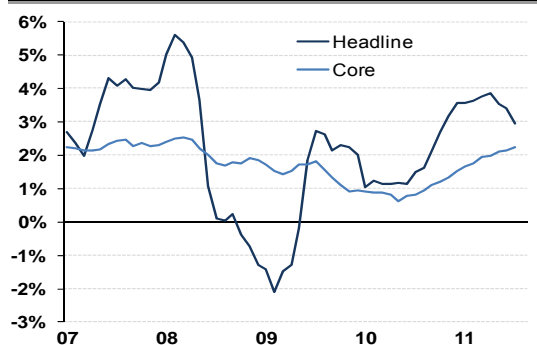
Graph 6
Private Nonfarm Payrolls
(Monthly Change in K)



Source: Haver Analytics & BBVA Research

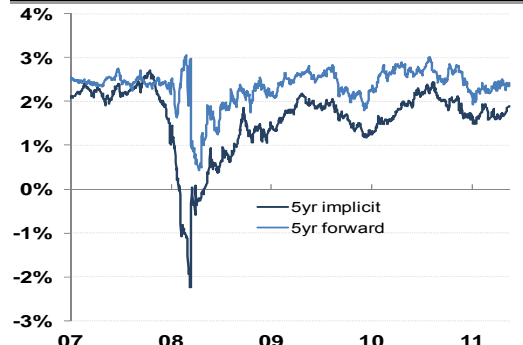
Economic Indicators

Graph 7
Consumer Price Index
(YOY% NSA, 1982-84=100)



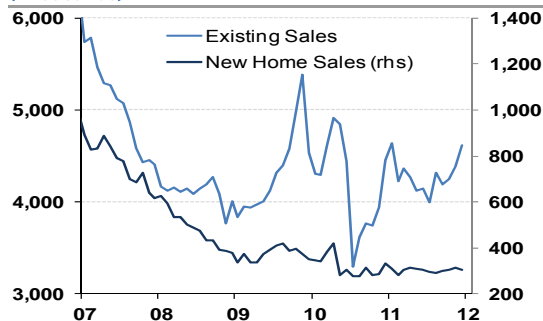
Source: Bureau of Labor Statistics

Graph 8
Inflation Expectations
(%)



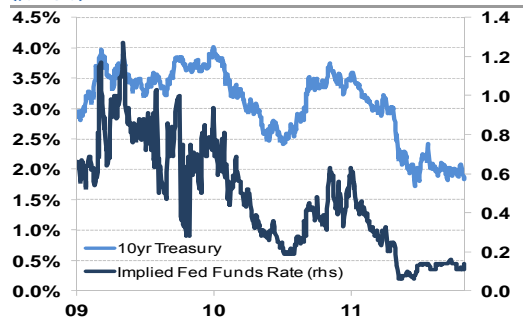
Source: Federal Reserve Board & BBVA Research

Graph 9
New and Existing Home Sales
(Thousands)



Source: Haver Analytics & BBVA Research

Graph 10
12 Month Implied Fed Funds Rate & 10 Yr Treasury
(%Yield)



Source: Haver Analytics

Table 1
Forecasts (**BOLD=FORECASTS**)

	2Q2011	3Q2011	4Q2011	2011	2012	2013
Real GDP (% SAAR)						
GDP	1.3	1.8	2.8	1.7	2.3	2.2
Real GDP (Contribution, pp)						
PCE	0.7	1.7	2.0	1.5	1.6	1.5
Gross Investment	6.4	1.3	20.0	0.6	0.9	0.8
Non Residential	10.3	15.7	1.7	0.8	0.8	0.7
Residential	4.2	1.3	10.9	0.0	0.1	0.1
Exports	3.6	4.7	4.7	0.9	0.8	0.9
Imports	1.4	1.2	4.4	-0.8	-0.8	-1.1
Government	-0.9	-0.1	-4.6	-0.5	-0.1	0.1
Unemployment rate (%)	9.0	9.1	8.7	9.0	8.5	8.1
Average Montly Nonfarm Payroll(k)	130	128	157	137	158	176
CPI						
CPI (YoY%)	3.4%	3.8%	3.3%	3.2	2.3	2.3
Core CPI (YoY%)	1.5%	1.9%	2.2%	1.7	1.9	1.8
Fiscal balance (% GDP)	-	-	-	-8.5	-7.1	-4.6
Current Account (bop, % GDP)	-3.3	-2.9	-	-3.2	-3.2	-3.4
Fed target rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25
S&P Case & Shiller Index	130.2	130.4	-	128.5	128.5	130.2
10Yr Treasury (% Yield, average)	3.2	2.4	2.0	2.8	2.3	2.7
US Dollar/ Euro	1.44	1.41	1.35	1.31	1.27	1.26
Oil Prices (dcb)	117.6	113.3	109.5	113.5	99.0	102.5

Source: BBVA Research

Chief Economist for US

Nathaniel Karp
Nathaniel.karp@bbvacompass.com

Hakan Danış
Hakan.Danis@bbvacompass.com

Boyd Stacey
Boyd.Stacey@bbvacompass.com

Marcial Nava
Marcial.Nava@bbvacompass.com

Jeffrey Owen Herzog
Jeff.Herzog@bbvacompass.com

Jason Frederick
Jason.Frederick@bbvacompass.com

Kim Fraser
Kim.Fraser@bbvacompass.com

Contact details

BBVA Research
2001 Kirby Drive, Suite 310
Houston, Texas 77019

BBVA Research reports are available in English and Spanish

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.